

**THEMBISILE HANI**  
**LOCAL MUNICIPALITY**



***FINANCIAL STATEMENTS***

**FOR THE YEAR ENDED  
30 JUNE 2010**

# Annual Financial Statements

for

## ***THEMBISILE HANI LOCAL MUNICIPALITY***

for the year ended 30 June: **2010**

Province:

MPUMALANGA

AFS rounding:

***R (i.e. only cents)***

### **Contact Information:**

<b>Name of Municipal Manager:</b>	V Kubheka
<b>Name of Chief Financial Officer:</b>	T Ratau
Contact telephone number:	013 - 986 9100
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<b>Name of relevant Auditor:</b>	AUDITOR GENERAL
Contact telephone number:	
Contact e-mail address:	

**THEMBISILE HANI LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2010

**General information**

**MEMBERS OF THE MAYORAL COMMITTEE**

**Councillors:**

Clr VV Nkosi  
Clr WS Msiza  
Clr N. Mahlangu  
Clr BN Mahlangu  
Clr BN Sibanyoni  
Clr LM Mboweni

Executive Mayor  
Chairperson: Finance Portfolio  
Chairperson: Local Economic Development Portfolio  
Chairperson: Development Planning and Infrastructure Portfolio  
Chairperson: Community Services Portfolio  
Chairperson: Corporate Services Portfolio

**MEMBERS OF THE THEMBISILE COUNCIL**

Clr M. Danisa  
Clr GM Monama  
Clr KM Matsheni  
Clr KM Mtshweni  
Clr TN Mahlangu  
Clr LN Mahlangu  
Clr TN Khumalo  
Clr PK Madihlaba  
Clr SZ Mnamateli  
Clr W Mtshweni  
Clr MS Ramphisa  
Clr BA Nkwanyana  
Clr NTG Kubheka  
Clr MM Mahlangu  
Clr LM Tshabangu  
Clr MJ Mahlangu  
Clr AM Mohoaduba  
Clr LL Mahlaela  
Clr LM Mboweni  
Clr RM Moekwa  
Clr SM Masombuka  
Clr SA Ramalekana  
Clr MM Sepogwana  
Clr TM Monareng  
Clr DJ Ntuli  
Clr JL Mtsweni  
Clr M Msiza  
Clr MJ Mlambo  
Clr PS Mahlangu  
Clr MP Mokone

Clr N Mahlangu  
Clr TL Mabena  
Clr JJ Jiyane  
Clr NE Hlophe  
Clr BN Sibanyoni  
Clr NE Makwakwa  
Clr DD Masombuka  
Clr J Ndala  
Clr ATL Mohapi  
Clr JJ Tau  
Clr JF Mashiya  
Clr BN Mahlangu  
Clr BJ Ntuli  
Clr NE Phakathi  
Clr WS Msiza  
Clr MSV Masango  
Clr VV Nkosi  
Clr SEM Ndlovu  
Clr MG Maluleka  
Clr MJ Tshilwane  
Clr S Nkosi  
Clr TE Motanyane  
Clr MW Mtshwene  
Clr PP Kgophane  
Clr BS Mnyakeni  
Clr OE Mokwena  
Clr D Ntuli  
Clr MG Komane  
Clr RQ Mtsweni  
Clr RJ Skosana

**Municipal Manager**

v Kubheka

**Chief Financial Officer**

T Ratau

**Grading of Local Authority**

Grade 3

**Auditors**

Auditor-General

**Bankers**

First National Bank

**THEMBISILE HANI LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2010

**General information (continued)**

<b>Physical address:</b>	24 Kwaggafontein C Opposite Police Station Kwaggafontein 3100
<b>Postal address:</b>	Private Bag x4041 Empumalanga
<b>Telephone number:</b>	013 - 986 9100
<b>Fax number:</b>	013 - 986 0995

**THEMBISILE HANI LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2010

**Approval of annual financial statements**

I am responsible for the preparation of these annual financial statements, which are set out on pages 5 to 59, in terms of Section 126(1) of the Municipal Finance Management Act and which I have signed on behalf of the Municipality.

I certify that the salaries, allowances and benefits of Councillors, as disclosed in note 21 of these annual financial statements are within the upper limits of the framework envisaged in Section 219 of the Constitution, read with the Remuneration of Public Officer Bearers Act and the Minister of Provincial and Local Government's determination in accordance with this Act.

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Municipal Manager:

*DATE*

**THEMBISILE HANI LOCAL MUNICIPALITY**  
**ANNUAL FINANCIAL STATEMENTS**  
for the year ended 30 June 2010

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**THEMBISILE HANI LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL POSITION**

as at 30 June 2010

	Note	2010 R	2009 R
<b>NET ASSETS AND LIABILITIES</b>			
<b>Net Assets</b>		<b>360 928 970</b>	<b>13 107 851</b>
Housing Development Fund	1	4 671 486	4 671 486
Accumulated Reserves		-	6 652 890
Accumulated surplus / (deficit)		356 257 484	1 783 475
<b>Current liabilities</b>		<b>46 587 512</b>	<b>40 999 809</b>
Consumer deposits	3	6 550 547	6 550 810
Creditors	4	21 280 751	32 477 293
Value Added Taxation - Payable	6	9 401 676	-
Unspent conditional grants and receipts	5	9 354 538	-
Provisions	2	-	1 971 706
<b>Total Net Assets and Liabilities</b>		<b>407 516 482</b>	<b>54 107 660</b>
<b>ASSETS</b>			
<b>Non-current assets</b>		<b>259 675 176</b>	<b>-</b>
Property, plant and equipment	8	258 147 454	-
Investments	9.1	1 527 722	-
<b>Current assets</b>		<b>147 841 306</b>	<b>54 107 660</b>
Consumer debtors	10	30 079 331	20 678 847
Other debtors	11	945 883	-
Value Added Taxation - Claimable	7	36 126 541	-
Call investment deposits	12	686 109	14 204 072
Bank balances and cash	13	80 003 442	19 224 741
<b>Total liabilities</b>		<b>407 516 482</b>	<b>54 107 660</b>

**THEMBISILE HANI LOCAL MUNICIPALITY**  
**STATEMENT OF FINANCIAL PERFORMANCE**  
for the year ending 30 June 2010

	<b>Note</b>	<b>2010 R</b>	<b>2009 R</b>
<b>Revenue</b>			
Property rates	14	3 752 162	3 960 809
Service charges	15	33 127 231	27 636 589
Rental of facilities and equipment	22	250 124	123 363
Interest earned - external investments	23	4 080 076	-
Interest earned - outstanding debtors	24	5 548 176	3 898 882
Fines		42 307	-
Licences and permits		7 709 173	-
Government grants and subsidies		206 888 939	107 776 084
Other income	25	5 322 426	1 142 936
<b>Total revenue</b>		<b>266 720 614</b>	<b>144 538 663</b>
<b>Expenses</b>			
Employee related costs	17	38 305 875	33 100 833
Remuneration of councillors	18	12 433 727	12 079 484
Repairs and maintenance		4 130 094	8 142 554
Bulk purchases	19	51 781 440	40 570 077
Grants and subsidies paid	20	3 240 698	-
General expenses	21	40 061 253	59 364 643
<b>Total expenses</b>		<b>149 953 087</b>	<b>153 257 591</b>
Less Amounts Charged Out		-	-
		<b>149 953 087</b>	<b>153 257 591</b>
<b>Surplus / (deficit) for the period</b>		<b>116 767 527</b>	<b>(8 718 928)</b>



**THEMBISILE HANI LOCAL MUNICIPALITY**

**STATEMENT OF CHANGES IN NET ASSETS**

as at 30 June 2010

	Pre -GRAP Reserves and Funds	Housing Development Fund	Accumulated Surplus/(Deficit)	Total: Net Assets
Note	R'000	R	R	R
<b>Balance at 30 June 2009</b>	<b>6 652 890</b>	<b>4 671 486</b>	<b>1 783 476</b>	<b>13 107 852</b>
Changes in accounting policy				-
<b>Restated balance</b>	<b>6 652 890</b>	<b>4 671 486</b>	<b>1 783 476</b>	<b>13 107 852</b>
Correction of prior period error			311 320 425	311 320 425
Surplus / (deficit) for the period			116 767 527	116 767 527
<b>Balance at 30 June 2010</b>	<b>6 652 890</b>	<b>4 671 486</b>	<b>429 871 427</b>	<b>441 195 803</b>
Implementation GRAP ( Note )	<b>(6 652 890)</b>		<b>6 652 890</b>	<b>-</b>
<b>Restated balance</b>	<b>0.00</b>	<b>4 671 486</b>	<b>436 524 317</b>	<b>441 195 803</b>
Transfers to / from accumulated surplus/(deficit) ( Acc Depreciation )			(80 266 833)	(80 266 833)
<b>Balance at 30 June 2010</b>	<b>-</b>	<b>4 671 486</b>	<b>356 257 484</b>	<b>360 928 970</b>

THEMBISILE HANI LOCAL MUNICIPALITY			
CASH FLOW STATEMENT			
as at 30 June 2010			
	Note	2010 R	2009 R
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>			
Receipts		-	-
Payments		-	-
<b>Net cash flows from operating activities</b>		<b>105 286 488</b>	<b>58 564 756</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>			
Purchase of fixed assets		(42 207 282)	(64 479 504)
Corrections fixed assets		-	-
Proceeds from sale of investments		(5 612 919)	7 859 690
<b>Net cash flows from investing activities</b>		<b>(47 820 201)</b>	<b>(56 619 814)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>			
Proceeds from borrowings			
Repayment of borrowings			
Proceeds from finance lease liability			
Repayment of finance lease liability			
<b>Net cash flows from financing activities</b>		<b>-</b>	<b>-</b>
<b>Net increase / (decrease) in net cash and cash equivalents</b>		<b>57 466 286</b>	<b>1 944 942</b>
<b>Net cash and cash equivalents at beginning of period</b>		<b>7 606 718</b>	<b>-</b>
<b>Net cash and cash equivalents at end of period</b>		<b>65 073 004</b>	<b>1 944 942</b>

**THEMBISILE HANI LOCAL MUNICIPALITY**  
**SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**  
for the year ending 30 June 2010

**1 BASIS OF ACCOUNTING**

**1.1 BASIS OF PRESENTATION**

The Annual Financial Statements have been prepared on an accrual basis of accounting and are in accordance with the historical cost convention.

The Annual Financial Statements have been prepared in accordance with the Accounting Standards and principles contained in Directive 3 and 5 issued by the Accounting Standards Board ("ASB") in March 2009.

The Accounting Framework of the municipality, based on the preceding paragraphs and applicable to the operations of the municipality, defined as Generally Recognised Accounting Practice ("GRAP"), comprises the approved and effective standards of GRAP, together with certain statements of International Public Sector Accounting Standards ("IPSASs"), as well as International Financial Reporting Standards ("IFRS"), comprising International Accounting Standards ("IAS"), in cases where a relevant standard of GRAP has not been issued. The standards therefore applicable to these financial statements, are therefore:"

GRAP 1 Presentation of Financial Statements

GRAP 2 Cash Flow Statements

GRAP 3 Accounting Policies, Changes in Accounting Estimates and Errors

GRAP 5 Borrowing Costs

GRAP 6 Consolidated and Separate Financial Statements

GRAP 9 Revenue from Exchange Transactions

GRAP 12 Inventories

GRAP 13 Leases

GRAP 14 Events after the Reporting Date

GRAP 16 Investment property

GRAP 17 Property, Plant and Equipment

GRAP 19 Provisions, Contingent Liabilities and Contingent Assets

GRAP 100 Non-Current Assets Held for Sale and Discontinued Operations

GRAP 102 Intangible Assets

IPSAS 20 Related Party Disclosure

IPSAS 21 Impairment of Non Cash-Generating Assets

IFRS 7 Financial Instruments: Disclosures

IAS 19 Employee Benefits

IAS 32 Financial Instruments: Presentation

IAS 36 Impairment of Assets

IAS 39 Financial Instruments: Recognition and Measurement

IFRIC 4 Determining whether an arrangement contains a lease

## **1.1 Changes in accounting policy and comparability**

For the year ended 30 June 2010, the municipality has adopted the accounting framework as set out in point 1 above. The details of comparative restatements are set out in the notes that follow.

The municipality changes an accounting policy only if the change:

a) is required by a Standard of GRAP; or

b) results in the financial statements providing reliable and more relevant information about the effects of transactions, other events or conditions on the performance or cash flow.

## **1.2 Critical judgments, estimations and assumptions**

The following are the critical judgments, apart from those involving estimations, that the management have made in the process of applying the municipality's Accounting Policies and that have the most significant effect on the amounts recognised in Annual Financial Statements:

### **1.2.1 Revenue Recognition**

Accounting Policy 10.2 on *Revenue from Exchange Transactions* and Accounting Policy 10.3 on *Revenue from Non-exchange Transactions* describes the conditions under which revenue will be recorded by the management of the municipality.

In making their judgement, the management considered the detailed criteria for the recognition of revenue as set out in GRAP 9: *Revenue from Exchange Transactions* and GAMAP 9: Revenue, as far as Revenue from Non-Exchange Transactions is concerned (see Basis of Preparation above). In particular, whether the municipality, when goods are sold, had transferred to the buyer the significant risks and rewards of ownership of the goods and when services are rendered, whether the service has been rendered. The management of the municipality is satisfied that recognition of the revenue in the current year is appropriate.

### **1.2.2 Financial assets and liabilities**

The classification of financial assets and liabilities into categories, is based on judgement by management.

### **1.2.3 Useful lives of Property, Plant and Equipment ("PPE")**

As described in Accounting Policies 3.3, 4 & 5, the municipality depreciates/amortises its property, plant and equipment, investment property and intangible assets over the estimated useful lives of the assets, taking into account the residual values of the assets at the end of their useful lives, which is determined when the assets are available for use. The useful lives and residual values of the assets are based on industry knowledge.

## **1.3 Presentation currency**

The Annual Financial Statements are presented in South African Rand, rounded off to the nearest Rand which is the municipality's functional currency.

## **1.4 Going concern assumption**

The Annual Financial Statements have been prepared on a going concern basis.

## **1.5 Offsetting**

Assets, liabilities, revenues and expenses have not been offset, except when offsetting is required or permitted by a Standard of GRAP.

## **1.6 Standards, amendments to standards and interpretations issued but not yet effective**

The following GRAP standards have been issued but are not yet effective and have not been early adopted by the municipality:

- GRAP 18 Segment Reporting - issued March 2005
- GRAP 23 Revenue from Non-Exchange Transactions (Taxes and Transfers) - issued February 2008
- GRAP 24 Presentation of Budget Information in Financial Statements - issued November 2007
- GRAP 103 Heritage Assets - issued July 2008

Application of all of the above GRAP standards will be effective from a date to be announced by the Minister of Finance. This date is not currently available.

The following standards, amendments to standards and interpretations have been issued but are not yet effective and have not been early adopted by the municipality:

- IAS 19 Employee Benefits - effective 1 January 2009
- FRIC 17 Distribution of Non-cash Assets to Owners - effective 1 July 2009
- IAS 39 Financial Instruments: Recognition and Measurement - portions of standard effective 1 July 2009

Management has considered all of the above-mentioned GRAP standards issued but not yet effective and anticipates that the adoption of these standards will not have a significant impact on the financial position, financial performance or cash flows of the municipality.

## **2. HOUSING OPERATING ACCOUNT**

The Housing Operating Account was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from National and Provincial Government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to the Housing Operating Account. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Operating Account.

In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Operating Account. Monies standing to the credit of the Housing Operating Account can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

## **3. PROPERTY, PLANT AND EQUIPMENT**

### **3.1 Initial Recognition**

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one year.

The cost of an item of property, plant and equipment is recognised as an asset if, and only if it is probable that future economic benefits or service potential associated with the item will flow to the municipality, and if the cost or fair value of the item can be measured reliably.

Property, plant and equipment are initially recognised at cost on its acquisition date or in the case of assets acquired by grant or donation, deemed cost, being the fair value of the asset on initial recognition. The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by the municipality. Trade discounts and rebates are deducted in arriving at the cost. The cost, where applicable, also includes the necessary costs of dismantling and removing the asset and restoring the site on which it is located.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Where an asset is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of that asset on the date acquired.

The cost of an item of property, plant and equipment acquired in exchange for a non-monetary assets or monetary assets, or a combination of monetary and non-monetary assets is measured at its fair value. If the acquired item could not be measured at its fair value, its cost was measured at the carrying amount of the asset given up.

Major spare parts and servicing equipment qualify as property, plant and equipment when the municipality expects to use them during more than one period. Similarly, if the major spare parts and servicing equipment can be used only in connection with an item of property, plant and equipment, they are accounted for as property, plant and equipment.

### 3.2 Subsequent Measurement

Subsequent expenditure relating to property, plant and equipment is capitalised if it is probable that future economic benefits or potential service delivery associated with the subsequent expenditure will flow to the entity and the cost or fair value of the subsequent expenditure can be reliably measured. Subsequent expenditure incurred on an asset is only capitalised when it increases the capacity or future economic benefits associated with the asset. Where the municipality replaces parts of an asset, it derecognises the part of the asset being replaced and capitalises the new component.

Subsequently all property plant and equipment, are measured at cost (which includes deemed cost for previously unrecognised assets), less accumulated depreciation and accumulated impairment losses.

Compensation from third parties for items of property, plant and equipment that were impaired, lost or given up is included in surplus or deficit when the compensation becomes receivable.

### 3.3 Depreciation

Land is not depreciated as it is regarded as having an indefinite life. Depreciation on assets other than land is calculated on cost, using the straight line method, to allocate their cost to their residual values over the estimated useful lives of the assets. The depreciation method used reflects the pattern in which the asset's future economic benefits or service potential are expected to be consumed by the municipality. Components

of assets that are significant in relation to the whole asset and that have different useful lives, are depreciated separately. The depreciation rates are based on the following estimated useful lives.

<b>Infrastructure</b>		<b>Other</b>	
Roads and Paving	15 - 30 yrs.	Buildings	30 yrs.
		Specialist vehicles	7 yrs.
<b>Community</b>		Other vehicles	5 yrs.
Buildings	30 yrs.	Office equipment	5 yrs.
Recreational Facilities	30 yrs.	Furniture and fittings	7 yrs.
Security	3 - 5 yrs.	Bins and containers	10 yrs.
Halls	30 yrs.	Specialised plant and equipment	7 yrs.
Libraries	30 yrs.	Other items of plant and equipment	
Parks and gardens	30 yrs.	Emergency equipment	7 yrs.
Other assets		Computer equipment	
<b>Heritage assets</b>			
Buildings	N/A		
Paintings and artifacts	N/A		
<b>Finance lease assets</b>			
Office equipment	5 yrs.		
Other assets			

The assets' residual values, estimated useful lives and depreciation method are reviewed annually, and adjusted prospectively if appropriate, at each reporting date.

### 3.4 Incomplete Construction Work

Incomplete construction work is stated at historical cost. Depreciation only commences when the asset is available for use.

### 3.5 Finance Leases

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as PPE controlled by the entity or where shorter, the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

### 3.6 Heritage Assets

Heritage assets, which are culturally significant resources and which are shown at cost, are not depreciated owing to uncertainty regarding their estimated useful lives.

### **3.7 Infrastructure Assets**

Infrastructure Assets are any assets that are part of a network of similar assets. Infrastructure assets are shown at cost less accumulated depreciation and accumulated impairment. Infrastructure assets are treated similarly to all other assets of the municipality in terms of the asset management policy.

### **3.8 Derecognition of property, plant and equipment**

The carrying amount of an item of property, plant and equipment is derecognised on disposal, or when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. Gains are not included in revenue.

Gains or losses are calculated as the difference between the net book value of assets (cost less accumulated depreciation and accumulated impairment losses) and the sales proceeds is included in the Statement of Financial Performance as a gain or loss on disposal of property, plant and equipment.

### **3.9 Impairment of assets**

### **3.10 Transitional Provision**

The estimated useful lives and the depreciation methods were not reviewed in the previous financial year as required by GAMAP 17 as these requirements were exempted in terms of General Notice 522 of 2007.

The municipality did not perform impairment testing on its cash generating assets in the previous financial year as required by IAS 36/AC128, as this requirement has been exempted in terms of General Notice 522 of 2007.

## **4. INTANGIBLE ASSETS**

### **4.1 Initial Recognition**

Identifiable non-monetary assets without physical substance which are held for use in the production or supply of goods or services, for rental to others, or for administrative purposes are classified and recognised as intangible assets. The municipality recognises an intangible asset in its Statement of Financial Position only when it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality and the cost or fair value of the asset can be measured reliably.

Internally generated intangible assets are subject to strict recognition criteria before they are capitalised.

Research expenditure is recognised as an expense when incurred.

Intangible assets are annually tested for impairment, including intangible assets not yet available for use.

Where items of intangible assets have been impaired, the carrying value is adjusted by the impairment loss, which is recognised as an expense in the period that the impairment is identified except where the impairment reverses a previous revaluation. The impairment loss is the difference between the carrying amount and the recoverable amount.

The estimated useful life and amortisation method are reviewed annually. Any adjustments arising from the annual review are applied prospectively as a change in accounting estimate in the Statement of Financial Performance.

### **4.3 Derecognition**

Intangible assets are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset. The gain or loss arising on the disposal or retirement of an intangible asset is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### **4.4 Transitional Provisions**

Costs incurred on intangible assets (other than on computer software, websites and the valuation roll) were expensed and not capitalised in the previous financial year as required by IAS 38 as this requirement was exempted in terms of General Notice 522 of 2007. The municipality accounted for all costs incurred that meet the intangible asset definition and recognition requirements as intangible assets for the financial year ended 30 June 2009 (and retrospectively, where practicable) in accordance with the requirements of GRAP 102, GRAP 3 and ASB Directive 3.

## 5. INVESTMENT PROPERTY

### 5.1 Initial Recognition

Investment property includes property (land or a building, or part of a building, or both land or buildings held under a finance lease) held to earn rentals and/or for capital appreciation, rather than held to meet service delivery objectives, the production or supply of goods or services, or the sale of an asset in the ordinary course of operations.

At initial recognition, the municipality measures investment property at cost including transaction costs once it meets the definition of investment property. However, where an investment property was acquired through a non-exchange transaction (i.e. where it acquired the investment property for no or a nominal value), its cost is its fair value as at the date of acquisition.

The cost of self-constructed investment property is the cost at date of completion.

Based on management's judgement, the following criteria have been applied to distinguish investment properties from owner occupied property or property held for resale:

- All properties held to earn market-related rentals or for capital appreciation or both and that are not used for administrative purposes and that will not be sold within the next 12 months are classified as Investment Properties;
- Land held for a currently undetermined future use. (If the Municipality has not determined that it will use the land as owner-occupied property or for short-term sale in the ordinary course of business, the land is regarded as held for capital appreciation);
- A building owned by the entity (or held by the entity under a finance lease) and leased out under one or more operating leases; and
- A building that is vacant but is held to be leased out under one or more operating leases on a commercial basis to external parties.

The following assets do not fall in the ambit of Investment Property and shall be classified as Property, Plant and Equipment, Inventory or Non-Current Assets Held for Sale, as appropriate:

- Property intended for sale in the ordinary course of operations or in the process of construction or development for such sale;
- Property being constructed or developed on behalf of third parties;
- Owner-occupied property, including (among other things) property held for future use as owner-occupied property, property held for future development and subsequent use as owner-occupied property, property occupied by employees such as housing for personnel (whether or not the employees pay rent at market rates) and owner-occupied property awaiting disposal;
- Property that is being constructed or developed for future use as investment property;
- Property that is leased to another entity under a finance lease;
- Property held to provide a social service and which also generates cash inflows, e.g. property rented out below market rental to sporting bodies, schools, low income families, etc; and
  - Property held for strategic purposes or service delivery.

### 5.2 Subsequent Measurement - Fair Value Model

Investment property is measured using the fair value model. Investment property is carried at fair value, representing open market value determined annually by external valuers at the reporting date. Fair value is based on active market prices, adjusted, if necessary, for any difference in the nature, location or condition of the specific asset. A gain or loss arising from a change in the fair value of investment property is included in surplus or deficit for the period in which it arises.

The gain or loss arising on the disposal of an investment property is determined as the difference between the sales proceeds and the carrying value and is recognised in the Statement of Financial Performance.

### 5.3 Transitional Provisions

Investment properties were recognised in terms of IAS 40 and subsequently measured in accordance with the cost model, but the fair values were not disclosed in the previous financial year as required by IAS 40 as this requirement was exempted in terms of General Notice 522 of 2007. The fair values of investment properties recognised in terms of GRAP 16 have been disclosed for the financial year ended 30 June 2009 (and retrospectively where practicable) in accordance with the requirements of GRAP 16, GRAP 3 and ASB Directive 3.

## 6. FINANCIAL INSTRUMENTS

The municipality has various types of financial instruments and these can be broadly categorised as either *Financial Assets* or *Financial Liabilities*.



## 6.1 Financial Assets - Classification

A financial asset is any asset consisting of cash or a contractual right to receive cash. The municipality has the following types of financial assets as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Investments in Fixed Deposits (Banking Institutions, etc)
- Long-term Receivables
- Consumer Debtors
- Certain Other Debtors
- Short-term Investment Deposits
- Bank Balances and Cash

In accordance with IAS 39.09, the *Financial Assets* of the municipality are classified as follows into the four categories allowed by this standard:

### Type of Financial Asset Classification in terms of IAS 39.09

Short-term Investment Deposits – Call Held-to-maturity investments

Bank Balances and Cash Available for sale investments

Long-term Receivables Loans and receivables

Consumer Debtors Loans and receivables

Other Debtors Loans and receivables

Investments in Fixed Deposits Held-to-maturity investments

*Financial assets at fair value through profit or loss* are financial assets that meet either of the following conditions:

- they are classified as held for trading; or
- upon initial recognition they are designated as at fair value through the Statement of Financial Performance.

*Available for sale investments* are financial assets that are designated as available for sale or are not classified as:

- Loans and Receivables;
- Held-to-Maturity Investments; or
- Financial Assets at fair value through the Statement of Financial Performance.

*Loans and Receivables* are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, except for maturities greater than 12 months, which are classified as non-current assets. Loans and receivables are recognised initially at cost which represents fair value. After initial recognition Financial Assets are measured at amortised cost, using the effective interest rate method less a provision for impairment.

*Held-to-Maturity Investments* are financial assets with fixed or determinable payments and fixed maturity where the municipality has the positive intent and ability to hold the investment to maturity.

Cash includes cash on hand (including petty cash) and cash with banks (including call deposits). Cash equivalents are short-term highly liquid investments, readily convertible into known amounts of cash, that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value. For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks, net of bank overdrafts. The municipality categorises cash and cash equivalents as financial assets: loans and receivables.

## 6.2 Financial Liabilities - Classification

A financial liability is a contractual obligation to deliver cash or another financial asset to another entity. The municipality has the following types of financial liabilities as reflected on the face of the Statement of Financial Position or in the notes thereto:

- Long-term Liabilities
- Certain Other Creditors
- Bank Overdraft
- Short-term loans
- Current Portion of Long-term Liabilities
- Consumer Deposits

There are two main categories of *Financial Liabilities*, the classification determining how they are measured. Financial liabilities may be measured as:

- Fair value through profit or loss; or
- Other financial liabilities.

Financial liabilities that are measured at fair value through profit or loss are financial liabilities that are essentially held for trading (i.e. purchased with the intention to sell or repurchase in the short term; derivatives other than hedging instruments or are part of a portfolio of financial instruments where there is recent actual evidence of short-term profiteering or are derivatives). Financial liabilities that are measured at fair value through profit or loss are stated at fair value, with any resulting gain or loss recognised in the Statement of Financial Performance.

Any other financial liabilities are classified as "Other financial liabilities" and are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortised cost using the effective interest method, with interest expense recognised on an effective yield basis.

In accordance with IAS 39.09 the *Financial Liabilities* of the municipality are all classified as "Other financial liabilities".

## 6.3 Initial and Subsequent Measurement

### 6.3.1 Financial Assets:

*Held-to-maturity Investments* and *Loans and Receivables* are initially measured at fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset. Subsequently, these assets are measured at amortised cost using the Effective Interest Method less any impairment, with revenue recognised on an effective yield basis.

Financial Assets at *Fair Value* and *Available-for-Sale* are initially and subsequently, at the end of each financial year, measured at fair value with the profit or loss being recognised in the Statement of Financial Performance.

### 6.3.2 Financial Liabilities:

Financial liabilities at fair value are initially and subsequently measured at fair value. Other financial liabilities are measured at amortised cost using the effective interest rate method.

## 6.4 Impairment of Financial Assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at each balance sheet date. Financial assets are impaired where there is objective evidence of impairment of Financial Assets (such as the probability of insolvency or significant financial difficulties of the debtor). If there is such evidence the recoverable amount is estimated and an impairment loss is recognised in accordance with IAS 39.

Initially Accounts Receivable are valued at fair value and subsequently carried at amortised cost using the effective interest rate method. An estimate is made for doubtful debt based on past default experience of all outstanding amounts at year-end. Bad debts are written off the year in which they are identified as irrecoverable. Amounts receivable within 12 months from the date of reporting are classified as current.

A provision for impairment of trade receivables is established when there is objective evidence that the municipality will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the original effective interest rate.

Consumer Debtors are stated at cost less a provision for bad debts. The provision is made in accordance with IAS 39.64 whereby the recoverability of Consumer Debtors is assessed individually and then collectively after grouping the assets in financial assets with similar credit risk characteristics. Government accounts are not provided for as such accounts are regarded as receivable.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognised in the Statement of Financial Performance.

With the exception of Available-for-Sale equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through the Statement of Financial Performance to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of Available-for-Sale equity securities, impairment losses previously recognised through profit or loss are not reversed through the Statement of Financial performance. Any increase in fair value subsequent to an impairment loss is recognised directly in equity.

#### **6.5 Derecognition of Financial Assets**

The municipality derecognises Financial Assets only when the contractual rights to the cash flows from the asset expire or it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity, except when Council approves the write-off of Financial Assets due to non recoverability.

If the municipality neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the municipality recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the municipality retains substantially all the risks and rewards of ownership of a transferred financial asset, the municipality continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

#### **6.6 Derecognition of Financial Liabilities**

The municipality derecognises Financial Liabilities when, and only when, the municipality's obligations are discharged, cancelled or they expire.

#### **6.7 Transitional Provisions**

Financial Assets and Liabilities and the information relating thereto were presented and disclosed in accordance with the requirements of the old version of IAS 32 in the previous financial year and not in accordance with the requirements of the new IAS 32 and IFRS 7 as these requirements were exempted in terms of General Notice 522 of 2007. Financial Assets and Liabilities and the information relating thereto are presented and disclosed for the financial year ended 30 June 2009 (and retrospectively, where practicable) in accordance with the requirements of the new version of IAS 32 and IFRS 7 and GRAP 3.

Financial instruments were initially measured at cost and not at fair value in the previous financial year as required by IAS 39.43, AG 64, AG 65, AG 79 and SAICA Circular 9 as this requirement was exempted in terms of General Notice 522 of 2007. Financial instruments are now initially measured at fair value for the financial year ended 30 June 2009 (and retrospectively, where practicable) in accordance with the requirements of IAS 39.43, IAS 39 AG.64, IAS 39 AG.65, IAS 39 AG.79, SAICA Circular 9 and GRAP 3.

### **7. RISK MANAGEMENT OF FINANCIAL ASSETS AND LIABILITIES**

It is the policy of the municipality to disclose information that enables the user of its financial statements to evaluate the nature and extent of risks arising from financial instruments to which the municipality is exposed on the reporting date.

Risks and exposure are disclosed as follows:

#### **7.1 Credit Risk**

- Each class of financial instrument is disclosed separately.
- Maximum exposure to credit risk not covered by collateral is specified.
- Financial instruments covered by collateral are specified.

#### **7.2 Liquidity Risk**

A maturity analysis for financial assets and liabilities that shows the remaining contractual maturities.

- Liquidity risk is managed by ensuring that all assets are reinvested at maturity at competitive interest rates in relation to cash flow requirements. Liabilities are managed by ensuring that all contractual payments are met on a timeous basis and, if required, additional new arrangements are established at competitive rates to ensure that cash flow requirements are met.

- A maturity analysis for financial liabilities (where applicable) that shows the remaining undiscounted contractual maturities is disclosed in note to the annual financial statements.

Risk management of Financial Assets and Liabilities were presented and disclosed in accordance with the requirements of the old version of IAS 32 in the previous financial year and not in accordance with the requirements of IFRS 7 as these requirements were exempted in terms of General Notice 522 of 2007. Risk management of Financial Assets and Liabilities are presented and disclosed for the financial year ended 30 June 2010 (and retrospectively, where practicable) in accordance with the requirements of IFRS 7 and GRAP 3.

## **8. INVENTORIES**

### **8.1 Initial Recognition**

Inventories comprise current assets held for sale, current assets for consumption or distribution during the ordinary course of business. Inventories are initially recognised at cost. Cost generally refers to the purchase price, plus taxes, transport costs and any other costs in bringing the inventories to their current location and condition. Where inventory is manufactured, constructed or produced, the cost includes the cost of labour, materials and overheads used during the manufacturing process.

Where inventory is acquired by the municipality for no or nominal consideration (i.e. a non-exchange transaction), the cost is deemed to be equal to the fair value of the item on the date acquired.

Direct costs relating to properties that will be sold as inventory are accumulated for each separately identifiable development. Costs also include a proportion of overhead costs.

### **8.2 Subsequent Measurement**

Consumable stores, raw materials, work-in-progress and finished goods are valued at the lower of cost and net realisable value. In general, the basis of determining cost is the weighted average cost of commodities. If inventories are to be distributed at no charge or for a nominal charge they are valued at the lower of cost and current replacement cost.

Unsold properties are valued at the lower of cost and net realisable value on a weighted average cost basis.

Redundant and slow-moving inventories are identified and written down from cost to net realisable value with regard to their estimated economic or realisable values and sold by public [auction. Net](#) realisable value is the estimated selling price in the ordinary course of business, less applicable variable selling expenses. Differences arising on the valuation of inventory are recognised in the Statement of Financial Performance in the year in which they arose. The amount of any reversal of any write-down of inventories arising from an increase in net realisable value or current replacement cost is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

The carrying amount of inventories is recognised as an expense in the period that the inventory was sold, distributed, written off or consumed, unless that cost qualifies for capitalisation to the cost of another asset.

### **8.3 Transitional Provisions**

Although the recognition of immovable capital assets, that meet the definition and recognition criteria of inventory, as inventories in accordance with the requirements of GAMAP 12 was exempted in the previous financial year in terms of General Notice 522 of 2007, the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of the above-mentioned General Notice which granted the municipality the recognition of immovable capital assets, that meet the definition and recognition criteria of inventory, as inventories in the previous financial year. Immovable capital assets that meet the definition and recognition criteria of inventory continued to be recognised as inventories for the financial year ended 30 June 2009 in accordance with the requirements of GRAP 12 and ASB Directive 3.

## **9. NON-CURRENT ASSETS HELD-FOR-SALE**

### **9.1 Initial Recognition**

Non-current Assets and Disposal Groups are classified as held-for-sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the sale is highly probable and the asset (or disposal group) is available for immediate sale in its present condition. Council must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

### **9.2 Subsequent Measurement**

Non-current Assets (and Disposal Groups) classified as held-for-sale are measured at the lower of their previous carrying amount and fair value less costs to sell.

A non-current asset is not depreciated (or amortised) while it is classified as held for sale, or while it is part of a disposal group classified as held for sale.

Interest and other expenses attributable to the liabilities of a disposal group classified as held for sale are recognised in surplus or deficit.

### **9.3 Transitional Provisions**

The municipality accounted for the disposal of Non-current assets and Disposal Groups in the previous financial year in accordance with the requirements of GAMAP 17, IAS 38, IAS 40 or IAS 41, as appropriate, and not in accordance with the requirements of IFRS 5 as these requirements were exempted in terms of General Notice 522 of 2007. Accounted for the disposal of Non-current assets and Disposal Groups for the year ended 30 June 2009 (and not retrospectively) in accordance with the requirements of GRAP 100 and ASB Directive 3.

## **10. REVENUE RECOGNITION**

### **10.1 General**

Revenue comprises the fair value of the consideration received or receivable for the sale of goods and services in the ordinary course of the municipality's activities. Revenue is shown net of value-added tax, returns, rebates and discounts.

The municipality recognises revenue when the amount of revenue can be reliably measured, it is probable that future economic benefits will flow to the municipality and when specific criteria have been met for each of the municipalities' activities as described below. The amount of revenue is not considered to be reliably measurable until all contingencies relating to the sale have been resolved. The municipality bases its estimates on historical results, taking into consideration the type of customer, the type of transaction and the specifics of each arrangement.

Revenue from exchange transactions refers to revenue that accrued to the municipality directly in return for services rendered / goods sold, the value of which approximates the consideration received or receivable.

Revenue from non-exchange transactions refers to transactions where the municipality received revenue from another entity without directly giving approximately equal value in exchange. Revenue from non-exchange transactions is generally recognised to the extent that the related receipt or receivable qualifies for recognition as an asset and there is no liability to repay the amount.

### **10.2 Revenue from Exchange Transactions**

#### **10.2.1 Service Charges**

Service charges relating to water are based on a flat rate. Revenue are recognised as revenue when invoiced.

Service charges relating to refuse removal are recognised on a monthly basis in arrears by applying the approved tariff to each property that has improvements. Tariffs are determined per category of property usage, and are levied monthly based on the number of refuse containers on each property.

In circumstances where services cannot readily be measured and quantified, a flat rate service charge is levied monthly on such properties.

#### **10.2.3 Finance income**

Interest earned on investments is recognised in the Statement of Financial Performance on the time proportionate basis that takes into account the effective yield on the investment.

#### **10.2.4 Tariff Charges**

Revenue arising from the application of the approved tariff of charges is recognised when the relevant service is rendered by applying the relevant authorised tariff. This includes the issuing of licences and permits.

#### **10.2.5 Income from Agency Services**

Income for agency services is recognised on a monthly basis once the income collected on behalf of agents has been quantified. The income recognised is in terms of the agency agreement.

#### **10.2.6 Sale of Goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:

- The municipality has transferred to the buyer the significant risks and rewards of ownership of the goods.
  - The municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold.
  - The amount of revenue can be measured reliably.
  - It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality.
- . The costs incurred or to be incurred in respect of the transaction can be measured reliably.

#### **10.2.7 Rentals**

Revenue from the rental of facilities and equipment classified as operating leases is recognised on a straight-line basis over the term of the lease agreement, where such lease periods span over more than one financial year.

### **10.3 Revenue from Non-exchange Transactions**

#### **10.3.1 Rates and Taxes**

Revenue from property rates is recognised when the legal entitlement to this revenue arises. Collection charges are recognised when such amounts are legally enforceable. Penalty interest on unpaid rates is recognised on a time proportion basis with reference to the principal amount receivable and effective interest rate applicable. A composite rating system charging different rate tariffs is employed. Rebates are granted to certain categories of ratepayers and are deducted from revenue.

#### **10.3.2 Fines**

Fines constitute both spot fines and summonses. Revenue from spot fines and summonses is recognised when payment is received, together with an estimate of spot fines and summonses that will be received based on past experience of amounts collected.

#### **10.3.3 Public contributions**

Revenue from public contributions is recognised when all conditions associated with the contribution have been met or where the contribution is to finance property, plant and equipment, when such items of property, plant and equipment are brought into use. Where public contributions have been received and the municipality has not met the condition, a liability is recognised.

#### **10.3.4 Other Donations and Contributions**

Donations are recognised on a cash receipt basis or where the donation is in the form of property, plant and equipment, when such items of property, plant and equipment are available for use.

#### **10.3.5 Revenue from Recovery of Unauthorised, Irregular, Fruitless and Wasteful Expenditure**

Revenue from the recovery of unauthorised, irregular, fruitless and wasteful expenditure is based on legislated procedures, including those set out in the Municipal Finance Management Act (Act No.56 of 2003) and is recognised when the recovery thereof from the responsible councillors or officials is virtually certain. Such revenue is based on legislated procedures.

#### **10.4 Transitional Provisions**

Revenue was initially recognised at cost and not at fair value in the previous financial year as the requirements of GAMAP 9.12 and SAICA circular 09/2006, which states that revenue should be recognised initially at fair value through discounting all future receipts using an imputed rate of return, have been exempted in terms of General Notice 522 of 2007. Revenue is initially recognised at fair value for the year ended 30 June 2009 (and retrospectively, where practicable) by discounting all future receipts using an imputed rate of return in accordance with the requirements of GRAP 9, GRAP 3 SAICA circular 09/2006.

### **11. GOVERNMENT GRANTS AND RECEIPTS**

Income received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met, a liability is recognised. Government grants that are receivable as compensation for expenses or losses already incurred or for the purpose of giving immediate financial support to the municipality with no future related costs, are recognised in the Statement of Financial Performance in the period in which they become receivable.

Interest earned on investments is treated in accordance with grant conditions. If it is payable to the funder it is recorded as part of the creditor and if it is the municipality's interest it is recognised as interest earned in the Statement of Financial Performance.

The municipality accounted for government grants and receipts in the previous financial year in accordance with the requirements of IAS 20.24 and .26, GAMAP 12.8, GAMAP 17.25 and GAMAP 9.42 – .46, as appropriate, and not in accordance with the requirements of the entire IAS 20 as these requirements, other than IAS 20.24 and .26, were exempted in terms of General Notice 522 of 2007. The municipality accounted for government grants and receipts for the year ended 30 June 2009 (and retrospectively, where practicable) in accordance with the requirements of GAMAP 9.42 - .46 and ASB Directives 3 and 5.

### **12.PROVISIONS**

Provisions are recognised when the municipality has a present or constructive obligation as a result of past events, it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation and a reliable estimate can be made of the obligation.

Future events that may affect the amount required to settle an obligation are reflected in the amount of a provision where there is sufficient objective evidence that they will occur. Gains from the expected disposal of assets are not taken into account in measuring a provision. Provisions are not recognised for future operating losses. The present obligation under an onerous contract is recognised and measured as a provision.

Provisions are reviewed at reporting date and the amount of a provision is the present value of the expenditure expected to be required to settle the obligation. When the effect of discounting is material, provisions are determined by discounting the expected future cash flows that reflect current market assessments of the time value of money. The impact of the periodic unwinding of the discount is recognised in the Statement of Financial Performance as a finance cost as it occurs.

### **13.EMPLOYEE BENEFITS**

#### **13.1 Short-term Employee Benefits**

Remuneration to employees is recognised in the Statement of Financial Performance as the services are rendered, except for non-accumulating benefits, which are only recognised when the specific event occurs.

The municipality treats its provision for leave pay as an accrual.

The costs of all short-term employee benefits such as leave pay, are recognised during the period in which the employee renders the related service. The liability for leave pay is based on the total accrued leave days at year end and is shown as a creditor in the Statement of Financial Position. The municipality recognises the expected cost of performance bonuses only when the municipality has a present legal or constructive obligation to make such payment and a reliable estimate can be made.

### 13.2 Defined Contribution Plans

A **defined contribution plan** is a plan under which the municipality pays fixed contributions into a separate entity. The municipality has no legal or constructive obligation to pay further contributions if the fund does not hold sufficient assets to pay all employees the benefits relating to service in the current or prior periods.

The municipality's contributions to the defined contribution funds are established in terms of the rules governing those plans. Contributions are recognised in the Statement of Financial Performance in the period in which the service is rendered by the relevant employees. The municipality has no further payment obligations once the contributions have been paid.

### 13.3 Defined Benefit Plans

A **defined benefit plan** is a post-employment benefit plan other than a defined contribution plan.

#### 13.3.1 Pension obligations

The municipality and its employees contribute to 4 different pension funds, namely Natal Joint Municipal Pension Fund and South African Local Authority Pension Fund. The defined benefit fund was last actuarially valued during the reporting period ending 30 June 2006.

The KZN Municipal Pension Fund is a defined contribution fund. The contributions to fund obligations for the payment of retirement benefits are charged against income in the year they become payable. Natal Joint Superannuation & Retirement Funds and Government Employee Pension Fund are defined benefit funds.

The schemes are funded through payments to fund administrator or trustee-administered funds, determined by periodic actuarial calculations. The Municipality has both defined benefit and defined contribution plans.

Defined benefit plans have been accounted for as defined contribution plans in accordance with the requirements on multi-employer plans where sufficient information is not available to account for such plans as defined benefit plans. As the fund administrators do not have sufficient information available to allocate the shortfall on liabilities to individual employers, no liability is recognised for any shortfall of fund asset as compared to fund liabilities. Any surcharges that may be levied by the fund from time to time in order to compensate for shortfalls, are recognised as expenses in the period in which they become payable to the fund. As surcharges are advised long in advance, based on actuarial valuations of the fund as a whole, the necessary provision for the payment hereof is made in the course of the municipality's normal budgeting processes."

For defined contribution plans, the Municipality pays contributions to fund administrators. The Municipality has no further payment obligations once the contributions have been paid. The contributions are recognized as employee benefit expense when they are due. Prepaid contributions are recognised as an asset to the extent that a cash refund or a reduction in the future payments is available.

#### 13.3.2 Post-retirement Health Care Benefits:

The municipality has an obligation to provide Post-retirement Health Care Benefits to certain of its retirees. According to the rules of the Medical Aid Funds, with which the municipality is associated, a member (who is on the current Conditions of Service), on retirement, is entitled to remain a continued member of the Medical Aid Fund, in which case the municipality is liable for a certain portion of the medical aid membership fee.

The defined benefit liability is the aggregate of the present value of the defined benefit obligation and recognised actuarial gains and losses, adjusted by past service costs where applicable. The plan is unfunded. The present value of the defined benefit obligation is calculated using the projected unit credit method, incorporating actuarial assumptions and an appropriate discount rate. Valuations of these obligations are carried out every year by independent qualified actuaries.

Actuarial gains or losses are accounted for in full and are recognised in the Statement of Financial Performance.

#### 13.3.3 Long-service Allowance

The municipality has an obligation to provide Long-service Allowance Benefits to all of its employees. According to the rules of the Long-service Allowance Scheme, which the municipality instituted and operates, an employee (who is on the current Conditions of Service), is entitled to a cash allowance, as well as additional once-off leave calculated in terms of the rules of the scheme, after 10, 15, 20, 25, 30, 35, 40 and 45 years of continued service.

The municipality's liability is based on an actuarial valuation. The projected unit credit method has been used to value the liabilities. Actuarial gains and losses on the long-term incentives are accounted for through the statement of financial performance.

Actuarial gains or losses are accounted for in full and are recognised in the Statement of Financial Performance.

## **14.LEASES**

### **14.1 The Municipality as Lessee**

Leases are classified as finance leases where substantially all the risks and rewards associated with ownership of an asset are transferred to the municipality. Property, plant and equipment or Intangible Assets subject to finance lease agreements are capitalised at amounts equal to the fair value of the leased asset or, if lower, the present value of the minimum lease payments, each determined at the inception of the lease. Corresponding liabilities are included in the Statement of Financial Position as Finance Lease Liabilities. The corresponding liabilities are initially recognised at the inception of the lease and are measured as the sum of the minimum lease payments due in terms of the lease agreement, discounted for the effect of interest. In discounting the lease payments, the municipality uses the interest rate that exactly discounts the lease payments and unguaranteed residual value to the fair value of the asset plus any direct costs incurred. Lease payments are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred.

Subsequent to initial recognition, the leased assets are accounted for in accordance with the stated accounting policies applicable to property, plant, equipment or intangible assets. The lease liability is reduced by the lease payments, which are allocated between the lease finance cost and the capital repayment using the effective interest rate method. Lease finance costs are expensed when incurred. The accounting policies relating to derecognition of financial instruments are applied to lease payables. The lease asset is depreciated over the shorter of the asset's useful life or the lease term.

Operating leases are those leases that do not fall within the scope of the above definition. Operating lease rentals are recognised as an expense in the statement of financial performance on a straight-line basis over the term of the relevant lease.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

### **14.2 The Municipality as Lessor**

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Municipality's net investment in the leases. Finance lease or installment sale income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Municipality's net investment outstanding in respect of the leases or installment sale agreements.

Operating lease rental income is recognised on a straight-line basis over the term of the relevant lease.

## **15.BORROWING COSTS**

Borrowing costs incurred relating to qualifying assets and all other borrowing costs incurred were recognised as expenses in the Statement of Financial Performance in the previous financial year. The municipality capitalises borrowing costs incurred that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset only when the commencement date for capitalisation is on or after 1 July 2008, while all other borrowing costs incurred (including borrowing cost incurred on qualifying assets where the commencement date for capitalisation is prior to 1 July 2008) are recognised as an expense in the Statement of Financial Performance for the financial year ending 30 June 2009 in accordance with the requirements of GRAP 5 and ASB Directive 3.

It is considered inappropriate to capitalise borrowing costs where the link between the funds borrowed and the capital asset acquired cannot be adequately established - the municipality expenses borrowing costs when it is inappropriate to capitalise it. The municipality ceases the capitalisation of borrowing costs when substantially all the activities to prepare the asset for its intended use or sale are complete.

## **16.VALUE ADDED TAX**

The Municipality accounts for Value Added Tax on the payments basis.

## **17.CASH AND CASH EQUIVALENTS**

Cash includes cash-on-hand and cash with banks. Cash equivalents are short-term highly liquid investments that are held with registered banking institutions with maturities of three months or less and are subject to an insignificant risk of change in value.

For the purposes of the cash flow statement, cash and cash equivalents comprise cash on hand, deposits held on call with banks and investments in financial instruments, net of bank overdrafts.

Bank overdrafts are recorded based on the facility utilised. Finance charges on bank overdrafts are expensed as incurred.

## **18.UNAUTHORISED EXPENDITURE**

Unauthorised expenditure is expenditure that has not been budgeted, expenditure that is not in terms of the conditions of an allocation received from another sphere of government, municipality or organ of state and expenditure in the form of a grant that is not permitted in terms of the Municipal Finance Management Act (Act No 56 of 2003). Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered



or written off as irrecoverable.

## **19.IRREGULAR EXPENDITURE**

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No 56 of 2003), the Municipal Systems Act (Act No 32 of 2000), the Public Office Bearers Act (Act No 20 of 1998) or is in contravention of the Municipality's or Municipal Entities' supply chain management policies. Irregular expenditure excludes unauthorised expenditure. Unauthorised expenditure is accounted for as an expense in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

## **20.FRUITLESS AND WASTEFUL EXPENDITURE**

Fruitless and wasteful expenditure is expenditure that was made in vain and would have been avoided had reasonable care been exercised. Fruitless and wasteful expenditure is accounted for as expenditure in the Statement of Financial Performance. If the expenditure is not condoned by the Council it is treated as an asset until it is recovered or written off as irrecoverable.

## **21.CHANGES IN ACCOUNTING POLICIES, ESTIMATES AND ERRORS**

Changes in accounting policies that are affected by management have been applied retrospectively in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the change in policy. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable.

Although the retrospective application, where practicable, of changes in accounting policies affected by management in accordance with the requirements of GRAP 3 was exempted in the previous financial year in terms of General Notice 522 of 2007 (providing that these changes in accounting policies were applied prospectively by the municipality), the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of the above-mentioned General Notice which granted the municipality the retrospective application, where practicable, of changes in accounting policies affected by management in the previous financial year. The municipality continued to apply changes in accounting policies affected by management retrospectively, where practicable, for the financial year ended 30 June 2009 in accordance with the requirements of GRAP 3.

Changes in accounting estimates are applied prospectively in accordance with GRAP 3 requirements. Details of changes in estimates are disclosed in the notes to the annual financial statements where applicable.

Correction of Errors is applied retrospectively in the period in which the error has occurred in accordance with GRAP 3 requirements, except to the extent that it is impracticable to determine the period-specific effects or the cumulative effect of the error. In such cases the municipality shall restate the opening balances of assets, liabilities and net assets for the earliest period for which retrospective restatement is practicable. Refer to Note 36 to the Annual Financial Statements for details of corrections of errors recorded during the period under review.

Although the identification and disclosure of the impact of GRAP standards that have been issued but are not yet effective was exempted in the previous financial year in terms of General Notice 522 of 2007, the National Treasury approved a deviation from the basis of accounting applicable to the municipality in terms of the above-mentioned General Notice which granted the municipality the identification and disclosure of the impact of GRAP standards that have been issued but are not yet effective in the previous financial year. The municipality continued to identify and disclose the impact of GRAP standards that have been issued but are not yet effective for the financial year ended 30 June 2009 in accordance with the requirements of GRAP 3.

## **22.RELATED PARTIES**

Individuals as well as their close family members, and/or entities are related parties if one party has the ability, directly or indirectly, to control or jointly control the other party or exercise significant influence over the other party in making financial and/or operating decisions. Key management personnel is defined as the Municipal Manager, Chief Financial Officer and all other managers reporting directly to the Municipal Manager or as designated by the Municipal Manager.

## **23.EVENTS AFTER THE REPORTING DATE**

Events after the reporting date that are classified as adjusting events have been accounted for in the Annual Financial Statements. The events after the reporting date that are classified as non-adjusting events after the reporting date have been disclosed in the notes to the Annual Financial Statements.

## **24.COMPARATIVE INFORMATION**

### **24.1 Prior year comparatives**

When the presentation or classification of items in the Annual Financial Statements is amended, prior period comparative amounts are reclassified. The nature and reasons for the reclassification are disclosed.

## **25.CONTINGENT ASSETS AND CONTINGENT LIABILITIES**

Contingent assets and contingent liabilities are not recognised. Contingencies are disclosed in the notes to the annual financial statements.

**THEMBISILE HANI LOCAL MUNICIPALITY**  
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	Note	2010 R	2009 R
<b>1 HOUSING OPERATING ACCOUNT</b>			
Housing Operating Account		<u>4 671 486</u>	<u>4 671 486</u>
The Housing Development Fund is represented by the following assets and liabilities :			
Cash and cash equivalents.		<u>4 671 486</u>	<u>4 671 486</u>
<b>2 NON-CURRENT PROVISIONS</b>			
Provision for rehabilitation of landfill sites		-	-
Provision for leave		-	1 449 031
Provision for Audit Fees			522 675
<b>Total Non-Current Provisions</b>		<u>-</u>	<u>1 971 706</u>
The provision for rehabilitation of landfill sites relates to the legal obligation to rehabilitate landfill sites used for waste disposal. It is based on management assessment of the rehabilitation costs of the dumpsite. A study will be done to determine the cost estimate in the near future,			
<b>3 CONSUMER DEPOSITS</b>			
Water		6 550 547	6 550 547
<b>Total consumer deposits</b>		<u>6 550 547</u>	<u>6 550 547</u>
<b>4 TRADE AND OTHER PAYABLES FROM EXCHANGE TRANSACTIONS</b>			
Trade creditors		-	890 928
Deposits Other		45 039	-
Payments received in advance		-	-
Retentions		3 143 424	9 793 488
Staff leave accrual		970 019	-
Accrued interest		2 620	-
Other creditors		17 119 649	21 792 876
<b>Total creditors</b>		<u>21 280 751</u>	<u>32 477 292</u>

**THEMBISILE HANI LOCAL MUNICIPALITY**  
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	Note	2010 R	2009 R
<b>5 UNSPENT CONDITIONAL GRANTS AND RECEIPTS</b>			
<b>Unspent Conditional Grants from other spheres of Government</b>			
MIG Grants		8 945 008	8 945 008
International Electric Grant		409 530	-
Department of Roads			1 996 550
Grant MPG Masakhane		-	6 929
Grant Seta		-	22 988
Municipal support MPG		-	717 474
Budget Reform Grant		-	830 678
<b>Total Unspent Conditional Grants and Receipts</b>		<b>9 354 538</b>	<b>12 519 626</b>
See Note 18 for reconciliation of grants and receipts. These amounts are invested in ring-fenced investment until utilised.			
<b>6 VAT PAYABLE</b>			
VAT payable		9 401 676	9 273 250
		<b>9 401 676</b>	<b>9 273 250</b>
VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.			
<b>7 VAT RECEIVABLE</b>			
VAT receivable		36 126 541	9 273 250
		<b>36 126 541</b>	<b>9 273 250</b>
VAT is payable on the receipts basis. VAT is paid over to SARS only once payment is received from debtors.			

**THEMBISILE HANI LOCAL MUNICIPALITY**  
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**8 PROPERTY, PLANT AND EQUIPMENT**

**8.1 Reconciliation of Carrying Value**

	Land	Buildings	Infrastructure	Community	Heritage	Intangible	Specilised Vehicles	Other Assets	Total
	R	R	R	R	R	R	R	R	R
<b>as at 1 July 2009</b>	<b>111 934 875</b>	<b>55 721 249</b>	<b>69 665 421</b>	<b>13 341 675</b>	<b>-</b>	<b>3 596</b>	<b>-</b>	<b>45 540 190</b>	<b>296 207 006</b>
Cost/Revaluation	111 934 875	55 721 249	69 665 421	13 341 675	-	3 596	-	45 540 190	296 207 006
Correction of error (note )									-
Change in accounting policy (note )									-
Accumulated depreciation and impairment losses	-	-	-	-	-	-	-	-	-
Acquisitions	-	7 190 856	34 322 074	-	-	-	-	694 352	42 207 282
Capital under Construction	-	-	-	-	-	-	-	-	-
Depreciation	-	(11 977 872)	(36 059 696)	(3 207 595)	-	(3 596)	-	(29 018 074)	(80 266 833)
Carrying value of disposals	-	-	-	-	-	-	-	-	-
Cost/Revaluation	-	-	-	-	-	-	-	-	-
Accumulated depreciation and impairment losses	-	-	-	-	-	-	-	-	-
Impairment loss/Reversal of impairment loss	-	-	-	-	-	-	-	-	-
<b>as at 30 June 2010</b>	<b>111 934 875</b>	<b>50 934 233</b>	<b>67 927 799</b>	<b>10 134 080</b>	<b>-</b>	<b>0</b>	<b>-</b>	<b>17 216 468</b>	<b>258 147 454</b>
Cost/Revaluation	111 934 875	62 912 105	103 987 495	13 341 675	-	3 596	-	46 234 542	338 414 287
Accumulated depreciation and impairment losses	-	(11 977 872)	(36 059 696)	(3 207 595)	-	(3 596)	-	(29 018 074)	(80 266 833)

**THEMBISILE HANI LOCAL MUNICIPALITY**  
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**9 INVESTMENTS**

**9.1 NON CURRENT INVESTMENTS**

Deposits	1 527 722	14 204 072
	<b>1 527 722</b>	<b>14 204 072</b>

**Investment Bank account**

FNB Account

Account Number 71203714251 Fix Deposit Investment Account

Bank statement balance at the beginning of the year	6 597 354	
Bank statement balance at the end of the year	<b>1 527 722</b>	<b>6 597 354</b>

**TOTAL NON CURRENT INVESTMENTS**

<b>1 527 722</b>	<b>20 801 425</b>
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**10 CONSUMER DEBTORS**

Rates	14 006 639	70 261 681
Water	42 830 145	-
Sewerage	783 202	-
Refuse	10 648 581	-
Other	18 944 934	(9 947 547)
Value Added Taxation	7 705 776	23 729 165
Add Back credits included above	-	-

<b>Total service debtors</b>	<b>94 919 275</b>	<b>84 043 299</b>
<b>Difference between ageing and ledger.</b>	<b>4 867</b>	

	<b>94 924 143</b>	<b>84 043 299</b>
<b>Less provision for bad debts</b>	<b>(64 844 810)</b>	<b>(63 364 452)</b>

<b>Total</b>	<b>30 079 332</b>	<b>20 678 847</b>
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No comparative amounts are available for credits included in the consumer debtors

**Rates: Ageing**

Current (0 – 30 days)	312 058	-
31 - 60 Days	309 290	-
61 - 90 Days	389 215	-
91 - 120 Days	301 059	-
Greater than 120 days.	12 695 017	-
<b>Total</b>	<b>14 006 639</b>	<b>-</b>

**Water: Ageing.**

Current (0 – 30 days)	936 933	
31 - 60 Days	940 877	
61 - 90 Days	938 256	
91 - 120 Days	935 789	
Greater than 120 days.	39 078 291	
<b>Total</b>	<b>42 830 145</b>	<b>-</b>

**Sewerage: Ageing.**

Current (0 – 30 days)	56 964	
31 - 60 Days	55 776	
61 - 90 Days	55 377	
91 - 120 Days	55 118	
Greater than 120 days.	559 966	
<b>Total</b>	<b>783 202</b>	<b>-</b>

**Refuse: Ageing.**

Current (0 – 30 days)	237 050	-
31 - 60 Days	234 814	-
61 - 90 Days	234 131	-
91 - 120 Days	233 370	-
Greater than 120 days.	9 709 215	-
<b>Total</b>	<b>10 648 581</b>	<b>-</b>

**Other: Ageing.**

Current (0 – 30 days)	638 137	-
31 - 60 Days	636 867	-
61 - 90 Days	617 351	-
91 - 120 Days	613 301	-
Greater than 120 days.	16 439 278	-
<b>Total</b>	<b>18 944 934</b>	<b>-</b>

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**Value Added Taxation: Ageing.**

Current (0 – 30 days)	172 555	-
31 - 60 Days	172 656	-
61 - 90 Days	172 169	-
91 - 120 Days	171 742	-
Greater than 120 days.	7 016 653	-
<b>Total</b>	<b>7 705 776</b>	<b>-</b>

No comparative amount are available for the ageing

**10.1 Reconciliation of the doubtful debt provision**

Balance at beginning of the year	<b>63 364 452</b>	<b>47 469 830</b>
Consumer Debtors	63 364 452	47 469 830
Other Debtors	-	-
Contribution for the year	1 500 000	15 894 622
Consumer Debtors	1 500 000	15 894 622
Other Debtors	-	-
( Release from ) Contribution to provision	-	-
Consumer Debtors	-	-
Other Debtors	-	-
Bad Debts written of against provision.	<b>29 292</b>	
Consumer Debtors	64 835 160	63 364 452
Other Debtors	-	-
Balance at end of year.	<b>64 835 160</b>	<b>63 364 452</b>

**11 OTHER DEBTORS**

Sundry Debtors	862 584	-
Other debtors	83 300	-
Amounts paid in advance	-	-
<b>Total Other Debtors</b>	<b>945 884</b>	<b>-</b>



**THEMBISILE HANI LOCAL MUNICIPALITY**  
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**12 CURRENT INVESTMENTS**

Call investments	686 108	7 606 718
	<b>686 108</b>	<b>7 606 718</b>

**Investment Bank account**

Absa Bank Account -  
Account Number 9080063497 Call Account

Bank statement balance at the beginning of the year	31 995	
Bank statement balance at the end of the year	<b>33 061</b>	<b>31 995</b>

**Investment Bank account**

Absa Bank Account -  
Account Number 2068471552 Short Term Investment Account

Bank statement balance at the beginning of the year	5 000 000	
Bank statement balance at the end of the year	-	<b>5 000 000</b>

**Investment Bank account**

Nedbank Bank Account -  
Account Number 37881527927 Call Account

Bank statement balance at the beginning of the year	650 427	
Bank statement balance at the end of the year	<b>653 047</b>	<b>650 427</b>

**Investment Bank account**

FNB Account -  
Account Number 62147052427 Call Account

Bank statement balance at the beginning of the year		
Bank statement balance at the end of the year		<b>1 924 296</b>

**TOTAL SHORT TERM INVESTMENTS**

<b>686 108</b>	<b>7 606 718</b>
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**13 BANK BALANCES AND CASH**

Cash and cash equivalents consist of the following:

Cash on hand	5 000	6 000
Petty Cash	-	-
	<b>5 000</b>	<b>6 000</b>

The Municipality has the following main bank accounts: -

**Primary Bank Account**

First National Bank Kwaggafontein Number 62026296427

Cash book balance at beginning of year	19 218 741	-
Cash book balance at end of year	<b>72 316 401</b>	<b>19 218 741</b>

Bank statement balance at beginning of year	-	-
Bank statement balance at end of year	<b>79 998 442</b>	-

Petty cash and cash on hand	5 000	6 000
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**Total bank, cash and overdraft balances.**

<b>80 003 442</b>	<b>19 224 741</b>
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**THEMBISILE HANI LOCAL MUNICIPALITY**  
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**14 PROPERTY RATES**

<b>Actual</b>		
Residential	3 752 162	3 960 809
Commercial	-	-
Agriculture	-	-
Donation: Sport & Welfare	-	-
State	-	-
<b>Total property rates</b>	<b>3 752 162</b>	<b>3 960 809</b>
Property rates - penalties imposed and collection charges	-	-
<b>Total</b>	<b>3 752 162</b>	<b>3 960 809</b>

**15 SERVICE CHARGES**

Sale of electricity	-	-
Sale of water	30 314 517	-
Refuse removal	2 812 714	-
Sewerage and sanitation charges	-	-
<b>Total Service Charges</b>	<b>33 127 231</b>	<b>-</b>

**16 GOVERNMENT GRANTS AND SUBSIDIES**

Equitable share	139 973 939	-
MIG Grants	8 945 008	8 945 008
International Electric Grant	409 530	-
Grant MPG Masakhane		(6 929)
Grant Seta		717 474
Municipal support MPG		717 474
Budget Reform Grant		830 678
	<b>149 328 476</b>	<b>11 203 705</b>

**16.1 Equitable Share**

<b>Balance unspent at beginning of year</b>	-	(3 429 210)
Current year receipts	139 973 939	
Conditions met - transferred to revenue	(139 973 939)	3 429 210
<b>Conditions still to be met - remain liabilities (see note 7)</b>	<b>-</b>	<b>-</b>

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

**16.2 Municipal Infrastructure Grant**

<b>Balance unspent at beginning of year</b>	(8 945 008)	(5 367 127)
Current year receipts	-	(3 577 881)
Conditions met - transferred to revenue	-	-
<b>Conditions still to be met - remain liabilities (see note 7)</b>	<b>(8 945 008)</b>	<b>(8 945 008)</b>

**THEMBISILE HANI LOCAL MUNICIPALITY**  
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**16.3 International Electric Grant**

Balance unspent at beginning of year	-	-
Current year receipts	(1 458 000)	
Conditions met - transferred to revenue	1 048 470	
<b>Conditions still to be met - remain liabilities (see note 7)</b>	<b>(409 530)</b>	<b>-</b>

**16.4 Grant MPG Masakhane**

Balance unspent at beginning of year	6 929	
Corrections	(6 929)	
Current year receipts	-	6 929
Conditions met - transferred to revenue	-	
<b>Conditions still to be met - remain liabilities (see note 7)</b>	<b>-</b>	<b>6 929</b>

**16.5 Grant Seta**

Balance unspent at beginning of year	(22 988)	(22 988)
Corrections	22 988	
Current year receipts	-	
Conditions met - transferred to revenue	-	
<b>Conditions still to be met - remain liabilities (see note 7)</b>	<b>-</b>	<b>(22 988)</b>

**16.6 Municipal support MPG**

Balance unspent at beginning of year	(717 474)	(717 474)
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
<b>Conditions still to be met - remain liabilities (see note 7)</b>	<b>(717 474)</b>	<b>(717 474)</b>

**16.7 Budget Reform Grant**

Balance unspent at beginning of year	(830 678)	(830 678)
Current year receipts	-	-
Conditions met - transferred to revenue	-	-
<b>Conditions still to be met - remain liabilities (see note 7)</b>	<b>(830 678)</b>	<b>(830 678)</b>

**17 EMPLOYEE RELATED COSTS**

Employee related costs - Salaries and Wages	28 399 151	33 100 833
Employee related costs - Contributions for UIF, pensions and medical aids	8 000 006	-
Travel, motor car, accommodation, subsistence and other allowances	1 576 947	-
Housing benefits and allowances	329 772	-
Overtime payments	-	-
Performance and other bonuses	-	-
Long-service awards	-	-
Other employee related costs	-	-
<b>Total Employee Related Costs</b>	<b>38 305 875</b>	<b>33 100 833</b>

There were no advances to employees.

**Remuneration of the Municipal Manager**

Annual Remuneration	459 490	487 950
Performance- and other bonuses	-	-
Travel, motor car, accommodation, subsistence and other allowances	100 000	102 000
Contributions to UIF, Medical and Pension Funds	29 123	28 778
<b>Total</b>	<b>588 612</b>	<b>618 728</b>

**Remuneration of the Chief Finance Officer**

Annual Remuneration	214 954	416 326
Performance- and other bonuses	-	-
Travel, motor car, accommodation, subsistence and other allowances	36 000	128 000
Contributions to UIF, Medical and Pension Funds	2 668	6 039
<b>Total</b>	<b>253 622</b>	<b>550 365</b>

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Remuneration of Individual Executive Directors	Technical Services R	Corporate Services R	Community Services R
<b>2010</b>			
Annual Remuneration	422 322	293 105	394 846
Performance- and other bonuses	14 000	-	-
Travel, motor car, accommodation, subsistence and other allowances	-	177 791	122 916
Contributions to UIF, Medical and Pension Funds	26 537	66 768	79 729
<b>Total</b>	<b>462 858</b>	<b>537 664</b>	<b>597 490</b>

	Technical Services R	Corporate Services R	Community Services R
<b>2009</b>			
Annual Remuneration	385 414	322 140	340 086
Performance- and other bonuses	-	-	-
Travel, motor car, accommodation, subsistence and other allowances	132 000	117 500	102 500
Contributions to UIF, Medical and Pension Funds	15 582	64 622	64 559
<b>Total</b>	<b>532 996</b>	<b>504 262</b>	<b>507 145</b>

**18 REMUNERATION OF COUNCILLORS**

Mayor	-	485 119
Deputy Mayor	-	-
Speaker	-	392 345
Executive Committee Members	-	1 843 505
Councillors	-	8 231 830
Councillors' medical aid contributions	-	1 126 685
Councillors' allowances	12 433 727	-
<b>Total Councillors' Remuneration</b>	<b>12 433 727</b>	<b>12 079 484</b>

**In-kind Benefits**

The Executive Mayor, Speaker and Mayoral Committee Members are full-time. Each is provided with an office and secretarial support at the cost of the Council.

The Mayor has use of the Council owned vehicle for official duties. The Mayor has one full-time bodyguard.

**19 BULK PURCHASES**

Water	51 781 440	40 570 077
<b>Total Bulk Purchases</b>	<b>51 781 440</b>	<b>40 570 077</b>

**20 GRANTS AND SUBSIDIES PAID**

Grant Expenditure	3 240 698	-
Grant in aid	-	-
	<b>3 240 698</b>	<b>-</b>

**THEMBISILE HANI LOCAL MUNICIPALITY**  
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**21 GENERAL EXPENSES**

Included in general expenses are the following:-

Advertising	222 989	424 898
Audit fees	1 508 030	9 261
Bank charges	147 643	108 947
Budget Process	-	200 605
Budget Reform Grant	-	727 683
Capacitation Programme	-	102 535
Cellphone Councillors	-	641 096
Contractors	7 344 001	4 894 924
Councillor Allowances	-	9 997 989
Department Transport Licence Fees	2 001 636	-
Deputation Costs	25 981	18 665
Development By-laws	337 895	-
Disaster	26 790	68 112
Donations	89 431	109 957
Electricity & Water Services	2 114 463	1 212 341
Entertainment	362 823	462 948
Financial Statements	-	149 000
Free Basic Electricity	-	2 084 533
Fuel and oil	1 469 987	3 562 883
HIV Aid Program	5 000	-
I D P Process	251 135	25 765
Implementation of MU	-	38 807
Insurance	797 977	1 098 568
Integrated Transport	-	39 839
Internal Audit	-	524 297
Launching of Annual Report	-	193 570
Legal Costs	1 542 488	535 003
Library	27 750	14 955
Licences	124 096	215 173
Materials	663 393	1 950 964
Mayors Cup	-	59 233
Membership fees	15 785	46 152
MSIG Grant Expenditure	-	59 730
Other	1 510 582	472 394
P M U	667 885	401 169
Pauper Burials	6 459 226	17 940
PMS Implementation	763 942	-
Postage	122 973	69 042
Printing and stationery	681 557	856 303
Prodiba	214 411	-
Protective Clothing	190	-
Publicity	892 581	687 953
Rental of Equipment	208 860	109 329
RSC Levies	-	285 277
Sample Testing	-	97 813
Security	6 176 413	5 210 002
Skills Development Levy	282 766	302 729
Software Licences	630 541	-
Software Maintenance	-	74 383
Sports Recreation & Culture	32 971	238 030
Strategic Planning	-	45 191
System Improvement	-	226 720
Telecommunications	-	1 362 198
Telephone cost	1 118 550	885
Town Planning Costs	32 408	230 406
Traffic Officers Uniform	-	61 951
Training	40 737	234 942
Travel and Accommodation.	963 008	1 881 409
Valuation Roll	-	3 569 988
Ward Committee Programme	-	131 907
Water Purchases	-	40 570 077
Woman & Gender Program	102 360	-
Youth Development Program	80 000	-
	<b>40 061 253</b>	<b>86 716 471</b>

**22 RENTAL OF FACILITIES AND EQUIPMENT**

Rental of facilities	247 901	-
Rental of equipment	2 222	-

**THEMBISILE HANI LOCAL MUNICIPALITY**  
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Other rentals	-	123 363
<b>Total rentals</b>	<b>250 124</b>	<b>123 363</b>

**23 INTEREST EARNED - EXTERNAL INVESTMENTS**

Bank Current Account	1 228 865	-
Investments	2 851 210	-
<b>Total interest</b>	<b>4 080 076</b>	<b>-</b>

**24 INTEREST EARNED - OUTSTANDING RECEIVABLES**

Consumer Debtors	5 548 176	7 859 690
Sundry Debtors	-	-
<b>Total interest</b>	<b>5 548 176</b>	<b>7 859 690</b>

**25 OTHER INCOME, PUBLIC CONTRIBUTIONS AND DONATIONS**

<b>25.1 Other income</b>	<b>5 759 081</b>	<b>1 142 936</b>
<b>Total Other Income</b>	<b>5 759 081</b>	<b>1 142 936</b>

**26 DEPRECIATION AND AMORTISATION EXPENSE**

Property, plant and equipment	44 203 542	-
Intangible assets	3 596	-
Investment property carried at cost	-	-
Biological assets carried at cost	-	-
<b>Total Depreciation and Amortisation</b>	<b>44 207 138</b>	<b>-</b>

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**27 CASH GENERATED BY OPERATIONS**

Surplus/(deficit) for the year	116 767 527	(8 718 929)
Adjustment for:-	-	-
Depreciation and amortisation	-	-
(Gain) / loss on sale of assets	-	-
Contribution to provisions - non-current		1 095 933
Contribution to provisions - current		1 652 965
Capital Costs-External Funding	-	57 926 854
Fixed Asset	-	8 619 542
Amendments prior year	-	(6 171 513)
Interest earned	(2 188 112)	(7 859 690)
Other non-cash item		2 204 730
<b>Operating surplus before working capital changes:</b>	<b>114 579 414</b>	<b>48 749 892</b>
(Increase)/decrease in trade receivables	9 400 485	(4 477 625)
(Increase)/decrease in VAT receivable	(26 853 291)	
Increase/(decrease) in conditional grants and receipts	(3 165 088)	3 643 087
Increase/(decrease) in trade payables	11 196 541	4 477 626
Increase/(decrease) in consumer deposits	-	6 171 776
Increase/(decrease) in VAT payable	128 426	
Other asset		
Other liability		
<b>Cash generated by/(utilised in) operations</b>	<b>105 286 488</b>	<b>58 564 756</b>

**28 CASH AND CASH EQUIVALENTS**

Cash and cash equivalents included in the cash flow statement comprise the following:

Bank balances and cash	64 386 896	-
Call Investment Deposits	686 108	7 606 718
<b>Net cash and cash equivalents</b>	<b>65 073 004</b>	<b>7 606 718</b>

**29 CHANGE IN ACCOUNTING POLICY**

The following adjustments were made to amounts previously reported in the annual financial statements of the municipality arising from the implementation of new accounting policies and changes to existing policies:

**29.1 Statutory Funds**

<b>Balance previously reported: -</b>		
Capital Development Fund	6 652 890	6 652 890
Loans redeemed and other capital receipts	296 207 006	-
<b>Total</b>	<b>302 859 896</b>	<b>6 652 890</b>

**Implementation of GRAP**

Transferred to Accumulated Surplus/(Deficit) (see 35.3 below)	302 859 896	-
---	-------------	---

**29.2 Accumulated Depreciation**

<b>Balance previously reported -</b>		
<b>Implementation of GRAP</b>		
Backlog depreciation: Buildings	11 977 872	-
Backlog depreciation: Infrastructure	36 059 696	-
Backlog depreciation: Community	3 207 595	-
Backlog depreciation: Other	29 018 074	-
Backlog depreciation: Heritage	-	-
Backlog depreciation: Intangible Assets	3 596	-
Backlog depreciation: Specialised Vehicles	-	-
<b>Total (debited to Accumulated Surplus/(Deficit)) (see 35.3 below)</b>	<b>80 266 833</b>	<b>-</b>

**29.3 Accumulated Surplus/(Deficit)**

**Implementation of GRAP**

Balance 30 June 2009	-	
Transferred from statutory funds (see 35.1 above)	302 859 896	
Backlog depreciation (see 35.2 above)	(80 266 833)	
<b>Total</b>	<b>222 593 063</b>	<b>-</b>

**31 VAT**

**THEMBISILE HANI LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**for the year ended 30 June 2010**

VAT input receivables and VAT output payables are shown in note 8 and 9. All VAT returns have been submitted by the due date throughout the year.

**32 Operating leases**

At the reporting date the entity has outstanding commitments under operating leases which fall due as follows:

**Operating leases - lessee**

Operating leases paid per annum.

Within one year

In the second to fifth year inclusive

After five years

**Total**

-	-
-	-

Operating Leases consists of the following:

Operating lease payments represent rentals payable by the municipality for certain of its office properties. Leases and rentals are negotiated for an average of three years.

**33 RETIREMENT BENEFIT INFORMATION**

**33.1 Defined contribution plan**

The following are defined contribution plans:.....These contributions have been expensed.

**33.2 Defined benefit plan**

Personnel are members of the Natal Joint Municipal Pension Funds and South African Local Authorities Pension Funds. The last actuarial valuation for SALA was on 1 July 2006. The last actuarial valuation for Natal Joint Pension Funds was 31 March 2008.

**34 CONTINGENT LIABILITY**

**34.1 Claim for damages**

None

**35 CONTINGENT ASSET**

None

**36 IN-KIND DONATIONS AND ASSISTANCE**

None



**THEMBISILE HANI LOCAL MUNICIPALITY**  
**NOTES TO THE FINANCIAL STATEMENTS**  
for the year ended 30 June 2010

**37 RELATED PARTIES**

Joint Ventures  
Associates  
Members of key management  
Close family member of key management  
Post employment benefit plan for employees of municipality and/or other related parties  
Other related party relationships

**38 EVENTS AFTER THE REPORTING DATE**

None

**39 KEY SOURCES OF ESTIMATION UNCERTAINTY AND JUDGEMENTS**

The following areas involve a significant degree of estimation uncertainty:

Useful lives and residual values of property, plant, and equipment  
Recoverable amounts of property, plant and equipment  
Provision for rehabilitation of landfill sites (discount rate used, number of years, amount of cash flows)  
Present value of defined benefit obligation  
Provision for doubtful debts

**40 RISK MANAGEMENT**

**40.1 Maximum credit risk exposure**

Credit risk consists mainly of cash deposits, cash equivalents and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluates credit risk relating to customers on an ongoing basis in terms of council policy. Sales to consumer customers are settled in cash.

**40.2 Liquidity risk**

The municipality's risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments. Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

**40.3 Interest rate risk**

As the municipality has no significant interest-bearing assets, the municipality's income and operating cash flows are substantially independent of changes in market interest rates.

At year end, financial instruments exposed to interest rate risk were as follows:

- Call deposits
- Notice deposits
- Development Bank of South Africa loan

**41 RESTATEMENT OF COMPARATIVE INFORMATION**

Provision for leave have been reclassified as accruals. The effect of the restatement is summarised below:

**Statement of Financial Position:**

Provision for leave	-	1 449 031
Provision for Audit Fees	-	522 675
	-	<u>1 971 706</u>

**THEMBISILE HANI LOCAL MUNICIPALITY**

**APPENDIX A**

**SCHEDULE OF EXTERNAL LOANS**

as at 30 June 2010

	Loan number	Redeemable Date	Balance at 30 June 2009	Received during the period	Redeemed / written off during the period	Balance at 30 June 2010	Carrying Value of Property, Plant & Equipment	Other Costs in accordance with MFMA
<b>EXTERNAL LOANS</b>			R	R	R	R	R	R
LONG-TERM LOANS			-	-	-	-	-	-
<b>Total long-term loans</b>		-	-	-	-	-	-	-
<b>TOTAL EXTERNAL LOANS</b>		-	-	-	-	-	-	-

**THEMBISILE HANI LOCAL MUNICIPALITY**  
**APPENDIX B**  
**ANALYSIS OF PROPERTY PLANT AND EQUIPMENT**  
as at 30 June 2010

	Cost / Revaluation					Accumulated Depreciation					Carrying Value
	Opening Balance	Additions	Disposals	Under Construction	Closing Balance	Opening Balance	Depreciation	Disposals	Impairment loss/Reversal of impairment loss	Closing Balance	
	R	R	R	R	R	R	R	R	R	R	
<b>Land</b>	111 934 875				111 934 875					-	111 934 875
<b>Buildings</b>	55 721 249	7 190 856		-	62 912 105		(11 977 872)	-	-	(11 977 872)	50 934 233
<b>Infrastructure</b>	69 665 421	34 322 074			103 987 495		(36 059 697)			(36 059 697)	67 927 798
<b>Community Assets</b>	13 341 675				13 341 675		(3 207 595)			(3 207 595)	10 134 079
<b>Other Assets</b>	45 540 190	694 352			46 234 542		(29 018 074)			(29 018 074)	17 216 468
<b>Intangible Assets</b>	3 596				3 596		(3 596)			(3 596)	-
<b>Total</b>	<b>296 207 006</b>	<b>42 207 282</b>	<b>-</b>	<b>-</b>	<b>338 414 288</b>	<b>-</b>	<b>(80 266 835)</b>	<b>-</b>	<b>-</b>	<b>(80 266 835)</b>	<b>258 147 454</b>

**THEMBISILE HANI LOCAL MUNICIPALITY**  
**APPENDIX C**  
**SEGMENTAL ANALYSIS OF PROPERTY, PLANT AND EQUIPMENT**  
as at 30 June 2010

	Cost / Revaluation						Accumulated Depreciation				Carrying value
	Opening Balance	Additions	Under Construction	Disposals	Corrections	Closing Balance	Opening Balance	Additions	Disposals	Closing Balance	
	R	R	R	R	R	R	R	R	R	R	
Other	296 207 006	42 207 282				338 414 288	80 266 834			80 266 834	258 147 454
Budget & Treasury						0				0	0
Community Services						0				0	0
Corporate Services						0				0	0
Electricity						0				0	0
Executive & Council						0				0	0
Housing						0				0	0
Other						0				0	0
Planning & Development						0				0	0
Public Safety						0				0	0
Road Transport						0				0	0
Sewerage Services						0				0	0
Solid Waste						0				0	0
Sports & Recreation						0				0	0
Water						0				0	0
<b>Total</b>	<b>296 207 006</b>	<b>42 207 282</b>	<b>0</b>	<b>0</b>	<b>0</b>	<b>338 414 288</b>	<b>0</b>	<b>80 266 834</b>	<b>0</b>	<b>80 266 834</b>	<b>258 147 454</b>

**THEMBISILE HANI LOCAL MUNICIPALITY**  
**APPENDIX D**  
**SEGMENTAL STATEMENT OF FINANCIAL PERFORMANCE**  
for the year ended 30 June 2010

2009	2009	2009		2010	2010	2010
Actual Income	Actual Expenditure	Surplus / (Deficit)		Actual Income	Actual Expenditure	Surplus / (Deficit)
R	R	R		R	R	R
114 535 670	6 922 453	107 613 217	Budget & Treasury	160 947 949	7 950 580.65	152 997 368.77
638 977	12 871 569	-12 232 592	Community Services	8 307 388	16 406 558	-8 099 170.46
36 360	175 073	-138 713	Corporate Services	-	4 489 105	-4 489 105.13
4 339 699	54 876 844	-50 537 145	Executive & Council	-	29 243 261	-29 243 261.47
318 924	24 380 298	-24 061 374	Technical Services	64 338 046	17 547 402	46 790 644.00
2 390 458	4 902 193	-2 511 735	Solid Waste	2 812 714	4 364 916	-1 552 202.46
22 278 574	49 129 161	-26 850 587	Water	30 314 517	69 951 264	-39 636 746.55
<b>144 538 662</b>	<b>153 257 591</b>	<b>(8 718 929)</b>		<b>266 720 614</b>	<b>149 953 087</b>	<b>116 767 527</b>
-	-	-	Less: Inter-Department Charges	-	-	-
<b>144 538 662</b>	<b>153 257 591</b>	<b>(8 718 929)</b>	Total	<b>266 720 614</b>	<b>149 953 087</b>	<b>116 767 527</b>

**THEMBISILE HANI LOCAL MUNICIPALITY**  
**APPENDIX E**  
DISCLOSURES OF GRANTS AND SUBSIDIES IN TERMS OF SECTION 123 OF MFMA, 56 OF 2003

Grants and Subsidies Received

Name of Grants	Organ of States	Quarterly Income				Quarterly Expenditure				Grants and Subsidies delayed/ withheld	Reason for delay/withholding of funds	Did your municipality comply with the grant conditions in terms of grant framework in the latest Division of Revenue Act	Reason for non-compliance
		July -Sept.	Oct. - Dec	Jan. - March	April - June	July -Sept.	Oct. - Dec	Jan. - March	April - June			Yes/No	
Equitable share	N	56 621 569		43 262 379	40 089 991	34 993 485	34 993 484	34 993 485	34 993 485	No	N/A	Yes	N/A
Municipal Infrastructure Grant	N	0	0	0	0	0	0	0	0	No	N/A	Yes	N/A
International Electrification Grant	N	0	0	0	1 458 000	0	0	0	1 048 470	No	N/A	Yes	N/A
Masakhane Grant MPG	P	0	0	0	0	0	0	0	0	No	N/A	Yes	N/A
SETA Grant	N	0	0	0	0	0	0	0	0	No	N/A	Yes	N/A
Municipal Support MPG	P	0	0	0	0	0	0	0	0	No	N/A	Yes	N/A
Budget Reform Grant	N	0	0	0	0	0	0	0	0	No	N/A	Yes	N/A
		56 621 569	0	43 262 379	41 547 991	34 993 485	34 993 484	34 993 485	36 041 955				
					141 431 939				141 022 409				